

## FAST FACTS

- \* If you co-sign and the borrower misses a payment, the lender can collect from you immediately.
- \* You are being asked to guarantee someone else's debt when you co-sign a loan.
- \* If you are considering co-signing, be sure you can afford to pay the loan.
- \* Your liability for the loan may keep you from getting other credit you may want.
- \* Before you pledge property, such as a car, to secure the loan, make sure you understand the consequences. If the borrower defaults, you could lose your property.

## CO-SIGNER'S NOTICE

What would you do if a friend or relative asked you to co-sign a loan? Before you give your answer, make sure you understand what co-signing involves. Under a Federal Trade Commission rule, creditors are required to give you a notice to help explain your obligations. The co-signer's notice says:

*"You are being asked to guarantee this debt. Think carefully before you do. If the borrower doesn't pay the debt, you will have to. Be sure you can afford to pay if you have to, and that you want to accept this responsibility.*

*"You may have to pay up to the full amount of the debt if the borrower does not pay. You may also have to pay late fees or collection costs, which increase this amount.*

*" The creditor can use the same collection methods against you that can be used against the borrower, such as suing you, garnishing your*

*wages, etc. If this debt is ever in default, that fact may become a part of your credit record."*

This notice is not the contract that makes you liable for the debt.

## CO-SIGNERS OFTEN PAY

Some studies of certain types of lenders show that for co-signed loans that go into default, as many as three out of four co-signers are asked to repay the loan. That statistic should not surprise you. When you are asked to co-sign, you are being asked to take a risk that a professional lender will not take. The lender would not require a co-signer if the borrower met the lender's criteria for making a loan.

In most states, if you do co-sign and your friend or relative misses a payment, the lender can collect from you immediately without pursuing the borrower first. And the amount you owe may be increased — by late charges or by attorneys' fees — if the lender decides to sue to collect. If the lender wins the case, he or she may be able to take your wages and property.

There may be times when you decide to co-sign despite the risk. Perhaps your son or daughter needs a first loan or a close friend needs help.

Here are a few things to consider before you co-sign:

- \* Be sure you can afford to pay the loan. If you are asked to pay and cannot, you could be sued or your credit rating could be damaged.
- \* Before you co-sign a loan, consider that even if you are not asked to repay the debt, your liability for this loan may keep you from getting other credit you may want.
- \* Before you pledge property, such as your automobile or furniture, to secure the loan, make sure you understand the conse-

quences. If the borrower defaults, you could lose these possessions.

- \* You may want to ask the lender to calculate the specific amount of money you might owe. The lender does not have to do this, but some will if asked. You also may be able to negotiate the specific terms of your obligation. For example, you might want to have your liability limited to paying the principal balance on the loan, but not late charges, court costs, or attorneys' fees. In this case, ask the lender to include a statement in the contract like this: "The co-signer will be responsible only for the principal balance on this loan at the time of default."
- \* You may want to ask the lender to agree, in writing, to notify you if the borrower misses a payment. In this way, you will have time to deal with the problem or make back payments without having to repay the whole amount immediately.
- \* Make sure you get copies of all important papers, such as the loan contract, the Truth-in-Lending Disclosure Statement, and any warranties if you are co-signing for a purchase. You may need these if there is a dispute between the borrower and the seller. Because the lender is not required to give you these papers, you may have to get copies from the borrower.

The Federal Trade Commission enforces a number of federal laws involving consumer credit including the Consumer Credit Practices Rule. Their Web Site is <http://www.ftc.gov>.



The Indiana Department of Financial Institutions, Division of Consumer Credit has many other credit related brochures available, such as:

Answers to Credit Problems  
Applying for Credit  
At Home Shopping Rights  
Bankruptcy Facts  
Buried in Debt  
Charge Card Fraud  
Choosing A Credit Card  
Co-Signing  
Credit and Divorce  
Deep in Debt?  
Equal Credit Opportunity  
Fair Credit Reporting  
Fair Debt Collection  
Gold Cards  
Hang up on Fraud  
High Rate Mortgages  
Home Equity Credit Lines  
How to Avoid Bankruptcy  
Look Before you Lease  
Mortgage Loans  
Older Consumers  
Repossession  
Reverse Mortgage Loans  
Rule of 78s – What is it?  
Shopping for Credit  
Using Credit Cards  
Variable Rate Credit  
What is a Budget?  
What is the DFI?

Call our toll-free number or write to the address on the cover for a copy of any of the brochures listed or for further consumer credit information. You can also access information at our web site on the Internet: <http://www.dfi.state.in.us>, then click on Consumer Credit.



# CO-SIGNING A LOAN



## DEPARTMENT OF FINANCIAL INSTITUTIONS

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